



OFFICE OF THE GOVERNOR

April 16, 2012

Stuart Drown
Executive Director
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Dear Mr. Drown:

The Little Hoover Commission has requested my testimony regarding the proposal in the Governor's Reorganization Plan to shift certain functions performed by the California Gambling Control Commission (the CGCC) to the Bureau of Gambling Control at the Department of Justice (the Bureau). The proposal is designed to consolidate field-investigation and field-compliance work at the Bureau, which will enhance the expertise of the State's gaming regulators and lead to a system of regulation that is more efficient and better serves the public.

When the State Gaming Agency was created by the Gambling Control Act and the tribal -gaming compacts, the Bureau was established to serve as the Agency's investigative, compliance, and law enforcement arm – in essence, the regulator in the field. The Bureau was charged with performing background investigations of applicants for licenses, investigating complaints regarding cardrooms and tribal casinos, and ensuring that cardrooms and tribal casinos were in compliance with applicable laws and regulations. The CGCC was created to be the State Gaming Agency's licensing authority with a variety of policy and adjudicatory powers, and was to rely on the Bureau's investigative reports to make its decisions. Over the past decade, largely through executive orders and budget bills, a parallel regulatory system has evolved under which the CGCC has become the primary field-regulator for tribal casinos, with the Bureau retaining law-enforcement powers but limited field-regulator functions in those casinos. The Bureau continues to be the primary field-regulator of the cardrooms, although the CGCC has assumed some of those duties as well.

This parallel system has created a diffusion of expertise, redundancy in functions, confusion among tribes and cardroom operators, and counterproductive competition between the CGCC and the Bureau. For example, under tribal-gaming compacts, tribes are required to have

surveillance systems, and the State has the power to inspect and ensure compliance with applicable standards for those systems. The CGCC may send out auditors to a tribal casino to review the surveillance system in connection with an audit of the casino, while the Bureau at the same time may send out field representatives to check for legal compliance regarding that same surveillance system, or the Bureau may also be doing an administrative or criminal investigation involving that system. Although the CGCC and the Bureau have made efforts to coordinate their field work, those efforts have not always been successful.

As to diffusion of expertise, the CGCC and the Bureau each have teams of auditors and compliance inspectors who share the mission of regulating gaming in California, but their divided structure makes them poorly positioned to share information relevant to overall gaming regulation and to build collective expertise. Although the operations of tribal casinos and cardrooms are not identical, primarily because casinos have slot machines and cardrooms do not, the subject areas of audits and inspections—such as the installation and operation of surveillance systems, the security of cash transactions, and the integrity of the play of table games—are substantively the same. Having parallel sets of gaming inspectors is like a city having one group of restaurant inspectors for pizza parlors and a separate group for hamburger joints.

The California gaming industry is complex, with approximately 90 cardrooms and 60 tribal casinos, and there are significant differences in the rules that apply to particular cardrooms and to particular casinos, with a wide range of variables contained in state law, gaming compacts, and local ordinances. What all 150 of these gaming operations have in common, however, is that they are cash-intensive businesses in an industry with a long history of potential criminal influences, addictive behavior among patrons, and the need for close regulation and attention to public safety. These businesses are run well in California, and the public should be confident that they will be safe and treated fairly when visiting a cardroom or a casino. But that requires a vigorous, coordinated effort of field regulation, which is best accomplished by concentration of field regulation in a single department.

I thank the Commission for the opportunity to submit this written testimony, and I will be available to answer any questions before the Commission during my testimony.

Very Truly Yours,



Jacob A. Appelsmith
Senior Advisor to the Governor

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